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C O N F I D E N T I A L RIYADH 001258

SIPDIS

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TAGS: [ECON](#) [EAGR](#) [EINV](#) [PGOV](#) [PREL](#) [SA](#)
SUBJECT: INFLATION CONTINUES TO SOAR: SAG DELAYS RICE
SUBSIDIES

REF: A. RIYADH 373
[1](#)B. RIYADH 707
[1](#)C. KUWAIT 864

Classified By: Economic Charge D'affaires Michael Gfoeller
for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: Rising food prices in Saudi Arabia have resulted in clamoring for relief, particularly from the middle and lower classes and expatriate workers. The SAG committed in April to pay subsidies of SR 1,000 (approximately \$270 UD) on each ton of rice imported, but it has not yet implemented this measure. Op-eds have called for government action to reduce the burden on the population, and major rice importers are meeting with the SAG to discuss price control mechanisms. End summary.

[1](#)2. (SBU) Food prices have risen 16.8% since 2004. This increase is mainly in grains and cereals, and is particularly felt in lower income households due to the larger proportion of total monthly spending on food. Commodity prices in Saudi Arabia have risen commensurate with levels seen elsewhere in the global market, and overall inflation in the Kingdom hovers between 10-11%, a 30 year high. The SAG has subsidized basic food products such as bread, milk, flour, wheat, and barley (Ref A). Additionally, the government committed to subsidizing rice by SR 1,000 for each imported ton. Saudi Arabia imports 1.2 million tons of rice each year, 75% of which is controlled by four major importers: Balsharaf, Babaker, Al-Muheidib and Al-Sha'lan. As the SAG is four months late on subsidies payments, these four importers began talks August 10 with the Ministry of Commerce and Industry (MoCI) to discuss price controls. Prices are expected to rise as demand for rice increases during Ramadan this year September 2- October 3.

[1](#)3. (C) On August 12, Econ Off and Econ FSN met with Assistant Deputy Minister for Foreign Trade Ahmed Bedaiwi and Director General of Foreign trade Mohammad al-Aiyash. Bedaiwi said that the delay in the subsidies from the Finance Ministry was attributable to the slow Saudi bureaucracy and did not signal a larger problem. Al-Aiyash said that the SAG is taking the issue extremely seriously, particularly because of the role of rice as a staple in the Saudi diet. He said, "a shortage in rice is unacceptable, we Saudis must eat it every day or we are not happy." On August 5, the English Language newspaper "Arab News" ran an op-ed piece calling for immediate government intervention, asserting that "Inflation is causing misery to millions across the Kingdom" and calling "soaring inflation potentially dangerous." There also have been demonstrations elsewhere in the region by foreign workers over low wages (Ref B).

[1](#)4. (C) Comment: Rising food prices have a direct negative effect on political stability in the Kingdom. The SAG is under real pressure to stem the rising cost of living. There is true public disgruntlement caused by the inflationary pinch. In spite of government subsidies on a wide range of products, the majority of the population, particularly

foreign workers, find their real incomes to be stagnant or even falling when they factor in inflation. With prices on the rise, many foreign workers (numbering approximately 9 million in the Kingdom) may no longer be able to send remittances home to their families, which could compel them to return to their country of origin, leading to a reduction in the national incomes to the home countries of these workers. This would further disrupt an economy that relies heavily on a foreign worker population. The publication of unusually critical op-eds in the public press is a sign of increasing public dissatisfaction with the government's perceived lack of response. Foreign lower echelon workers are hardest hit by the price increases, and as strikes over wages begin in neighboring countries, Post will watch for signs of similar levels of dissatisfaction in Saudi Arabia. End comment.

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